

MEMORANDUM



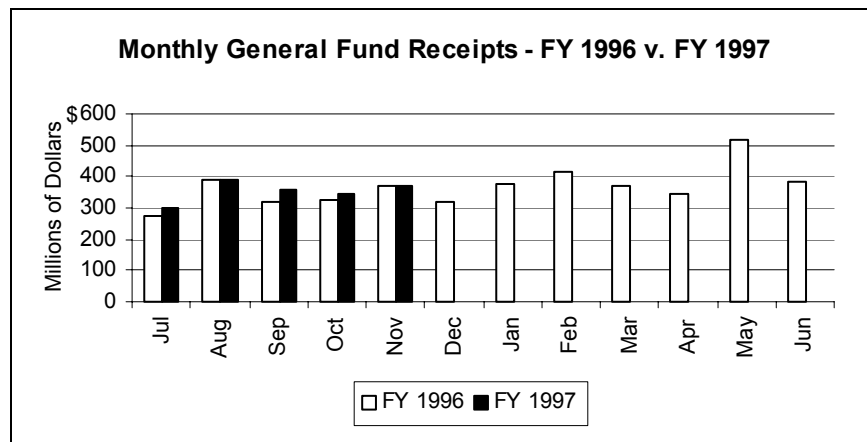
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: December 2, 1996

General Fund Receipts Through November 30, 1996

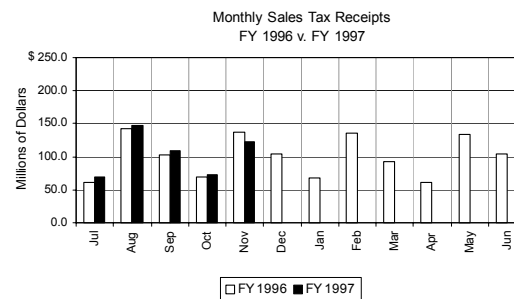
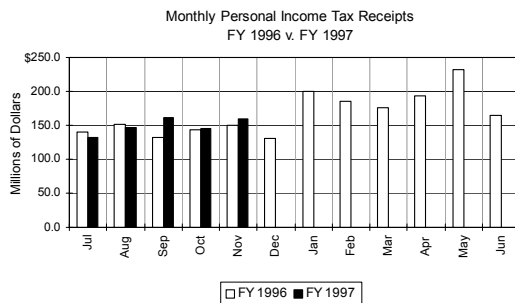
The attached spreadsheet represents total FY 1997 General Fund receipts, with comparable figures for FY 1996. These can also be compared to the latest FY 1997 estimate (\$4.627 billion) set by the Revenue Estimating Conference (REC) on November 21, 1996. The REC agreed to leave the total General Fund receipts estimate unchanged from the September meeting. The estimate represents an increase of \$220.4 million (5.0%) compared to FY 1996. The Conference also retained the FY 1998 estimate of \$4.835 billion, an increase of \$208.0 million (4.5%) compared to the FY 1997 estimate.



Total year-to-date General Fund receipts for the first five months of FY 1997 increased 5.1% compared to FY 1996. Tax receipts showed an increase of 4.3%. Personal income tax receipts increased 4.1%. Sales tax receipts were 1.3% higher than the previous fiscal year. Use tax increased 7.6% compared to FY 1996, and corporate income tax receipts showed an 11.3% increase. Receipts collected in the month of November totaled 0.2% less than November 1995. The first five months of the current year has had one more processing day than the same period in FY 1996, however November 1996 had one less processing day than November 1995.

Gross personal income tax receipts for November were \$10.8 million (7.2%) more than November 1995, led by a 9.8% increase in November's receipts from withholding. Some of the growth may be due

to a temporary slowdown in processing in November 1995. The November REC lowered the individual income tax estimate by \$14.1 million based on performance through November 21. The revised estimate of \$2.109 billion represents a projected increase of 5.4% compared to FY 1996. Individual income tax receipts for the remainder of the year need to grow 6.1% to reach the revised estimate.



Sales tax receipts in November declined 10.9% compared to November 1995. This reduction is largely due to a larger than expected local option sales tax reconciliation payment in November. This payment, paid from the quarterly receipts account, was approximately \$15.0 million higher than last year's payment, and is being viewed as a one-time decrease. The year-to-date figure is expected to grow as the effects of the payment are spread out throughout the remainder of the year. The REC lowered the FY 1997 sales tax estimate slightly to \$1.275 billion. Sales tax receipts for the remainder of the year will need to grow 7.9% to reach the revised estimate. Projections of retail activity attributable to holiday spending are still mixed.

Corporate income tax receipts in November were \$3.3 million (29.9%) less than November 1995. Year-to-date receipts exceeded FY 1996 levels by \$10.9 million (11.3%). All of the annual growth is due to a timing factor associated with the day of the week on which the fiscal year began. If timing issues are considered, corporate income tax receipts are lagging last year's receipts by approximately 2.1%. However, FY 1997 corporate income tax receipts will also receive a processing windfall at the end of the year. As a result, the REC increased the FY 1997 estimate for corporate income tax receipts by \$4.4 million in November. The current estimate represents an increase of 6.0% compared to actual FY 1996 corporate income tax receipts. To reach the REC estimate, receipts for the remainder of the year will need to grow 3.3%. Adjusted for the processing windfall, receipts need only keep pace with last year's activity.

Inheritance tax receipts through November were 18.4% higher than the same period in FY 1996. For the month of November, however, receipts were 31.2% less than November 1995. The November REC revised the inheritance tax estimate upward by \$7.0 million to \$108.0 million, an increase of 12.6% compared to FY 1996. Receipts for the last seven months need to grow by 8.5% to reach the revised estimate.

Franchise tax receipts through the first five months totaled \$11.4 million, an increase of \$2.4 million (26.8%) compared to actual FY 1996 receipts. Although receipts in November trailed November 1995 receipts by 28.3%, the dollar amount (\$192,000) is negligible. Prior to the fourth quarter of FY 1996, there was little evidence that legislation from the 1995 Legislative Session was successful in recovering lost revenues. However, receipts during the last quarter of FY 1996 and the first quarter of FY 1997, as well as an informal analysis of franchise tax returns by the Department of Revenue and Finance, indicate that tax avoidance measures recently utilized by banks may be diminishing substantially. Franchise tax receipts in the last quarter of FY 1996 were 12.0% higher than the last quarter of FY 1995. Franchise tax receipts need to grow 6.2% for the remainder of the year to reach the REC estimate of \$30.0 million.

Racing and gaming receipts in November increased 23.2% compared to November 1995. Receipts through the first five months were 24.5% higher than the same period in FY 1996. In compliance with HF 2421 (Transportation and Capitals Appropriations Act), which passed during the 1996 Legislative Session, the Department of Revenue and Finance transferred \$46.1 million from racing and gaming receipts to the Rebuild Iowa Infrastructure Fund. The Infrastructure Fund will also receive all gambling revenues exceeding \$60.0 million in FY 1997. The November REC reported they anticipate total racing and gaming receipts to reach \$113.5 million in FY 1997, which is unchanged from the September estimate. This level would result in a transfer of \$53.5 million to the Rebuild Iowa Infrastructure Account in FY 1997. The transfer is expected to increase to \$58.1 million in FY 1998.

As an outgrowth of HF 2421, total General Fund receipts growth of \$84.8 million through November includes \$9.4 million from racing and gaming receipts that will not be there at year's end. Thus, adjusted for this factor, total General Fund receipts growth for the first five months of FY 1997 would be 4.5% rather than 5.1%.

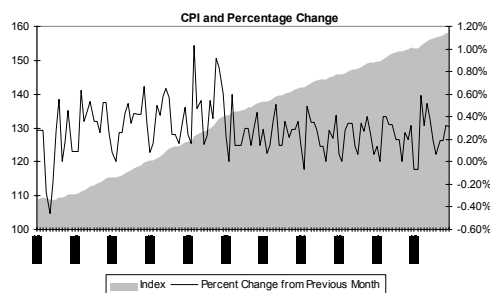
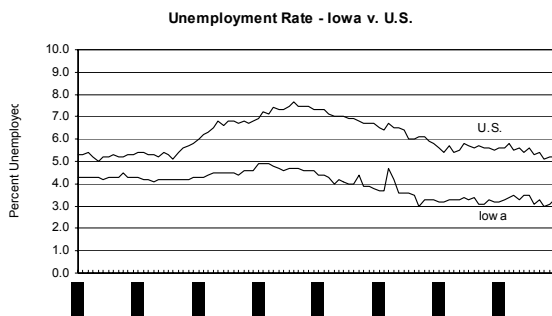
Receipts Compared to REC Estimate

The November REC FY 1997 estimate of \$4.627 billion represents an increase of 5.0% compared to actual FY 1996 General Fund receipts. Assuming each month is expected to increase by the REC estimate, the estimate for the first five months was exceeded by approximately \$0.9 million (unadjusted for any timing factors). Adjusted for the timing factors discussed in this letter, receipts through November have exceeded last year's level by 4.9%.

Status of the Economy

The seasonally adjusted percent unemployed for the State increased two-tenths of a point to 3.3% in October. The unemployment rate a year ago was 3.5%. The U.S. unemployment rate held steady at 5.2% in October. The U.S. rate in October 1995 was 5.5%.

Consumer prices in October increased approximately 0.3%. The Consumer Price Index (CPI) through October 1996 was 158.3 (1983=100), which is 3.0% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through October 1996.



Receipts Information Available On-Line

Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). Data is presented graphically and numerically in quarterly, monthly, and daily formats. If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

GENERAL FUND RECEIPTS - FY 1997 vs. FY 1996						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1996, through November 30, 1996, in millions of dollars						FY 96 Actual Compared to FY 97 REC Estimate			
	FY 1996		FY 1997		Year to Date	November	Actual	Estimate	% CHANGE
					% CHANGE	% CHANGE	FY 1996	FY 1997	% CHANGE
Personal Income Tax	\$	716.8	\$	746.4	4.1%	7.2%	\$ 2,000.9	\$ 2,109.0	5.4%
Sales Tax		514.6		521.4	1.3%	-10.9%	1,213.0	1,275.0	5.1%
Use Tax		92.3		99.3	7.6%	6.0%	207.8	224.5	8.0%
Corporate Income Tax		96.7		107.6	11.3%	-29.9%	277.6	294.4	6.1%
Inheritance Tax		40.0		47.4	18.4%	-31.2%	95.9	108.0	12.6%
Insurance Premium Tax		0.1		0.1	-9.3%	n/m	104.3	107.0	2.6%
Cigarette Tax		40.1		40.2	0.3%	-17.3%	94.1	95.0	1.0%
Tobacco Tax		2.3		2.5	9.7%	4.8%	5.3	5.5	3.8%
Beer Tax		5.6		5.7	0.6%	3.5%	12.6	12.5	-0.8%
Franchise Tax		9.0		11.4	26.8%	-28.3%	26.5	30.0	13.2%
Miscellaneous Tax		0.7		1.3	97.3%	n/m	0.9	0.9	0.0%
Total Special Taxes	\$	1,518.3	\$	1,583.3	4.3%	-2.8%	\$ 4,038.9	\$ 4,261.8	5.5%
Institutional Payments		41.3		42.5	2.8%	10.1%	105.0	104.7	-0.3%
Liquor Transfers:									
Profits		9.5		11.0	15.8%	20.0%	29.0	29.0	0.0%
7% Gross Revenue		3.8		3.8	0.0%	0.0%	9.0	9.0	0.0%
Interest		6.3		5.0	-20.4%	0.2%	13.5	13.0	-3.7%
Fees		21.9		24.5	11.8%	-0.3%	61.7	62.6	1.5%
Judicial Revenue		12.4		15.0	20.4%	10.7%	40.0	40.1	0.2%
Miscellaneous Receipts		27.5		31.5	14.2%	116.3%	49.5	46.8	-5.5%
Racing and Gaming Receipts		38.5		47.9	24.5%	23.2%	60.0	60.0	0.0%
TOTAL RECEIPTS	\$	1,679.6	\$	1,764.5	5.1%	-0.2%	\$ 4,406.6	\$ 4,627.0	5.0%